

# Sovereign safety

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## Abstract

This article traces the contours of an inconspicuous kind of state power in the form of *sovereign safety*. This power is articulated, more precisely, in a combination of four elements: the historical term of *public credit*, the *liquid government bond*, the *risk-free asset* of financial textbooks and the *safe-haven* function assumed by the bond market in times of uncertainty. All of these involve a peculiar translation from sovereign debt as the most risky asset to sovereign creditworthiness, circulating unsecured. If critical security studies has largely limited itself to a critique of the relatively recent sense of political state security, this article explores the relevance of a far older financial sense of ‘security’ and ‘securitization’ for contemporary studies of security. So far, the Foucault-inspired finance–security literature has emphasized the risk calculus as a principal mechanism in ‘securing circulation’. This article argues that sovereign safety constitutes an important overlooked factor in securing circulation in two ways: As the main form of collateral for financial transactions, its capacity to secure derives from being considered secure itself. As an epistemic variable, it constitutes the bedrock of modern finance theory. Moreover, rather than neatly complementary to the liberal security *dispositif*, sovereign safety can to some extent be said to represent the very object of the Foucaultian *divestiture* of power.

## Keywords

Collateral, Foucault, risk-free asset, securitization, security, sovereign credit

## Introduction

The critical approach to and productive transformation of security studies since the 1990s has largely been articulated against a state-centric understanding of security. Security has been extended along different axes, defined as a performative speech act or reconceptualized in terms of a Foucauldian security *dispositif*. This article returns the focus to the state, but offers an alternative analysis of the central tenet of traditional security studies in terms of sovereign safety – that is, the state’s position as safe asset of the financial system. The perception of *sovereign creditworthiness* implied by this term rests on the peculiar shift of sovereign debt from being the most risky asset in medieval times, to circulating ‘unsecured’ – that is, trading merely on ‘full faith and credit’. This process of accreditation can be understood as a securitization in the financial sense of the term as making liquid, making credible and making plausible. This analysis thus draws attention to the relevance of the financial

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sense of ‘security’ and ‘securitization’ for security studies, and provides a financial reading of the state that reveals a somewhat inconspicuous, but nonetheless vital, form of state power.

A growing literature has begun, partly in the pages of this journal, to examine the intricate affiliation of finance and security masked by the professional segregation of the two fields (Amoore, 2011; Boy et al., 2011a; Cooper, 2004; De Goede, 2005, 2010, 2012; Dillon, 2008; Langley, 2013, 2015; Lobo-Guerrero, 2011, 2012; Martin, 2007). De Goede’s (2010) comprehensive overview shows that, despite the relegation of the study of security and finance to the different disciplines of international relations, international political economy and modern finance theory, large parts of these disciplines nonetheless profess a finance–(in)security relation. The dollar diplomacy of the early 20th century, for example, represents an instrumental use of finance for the purposes of security, while international political economy has traditionally pointed out the *insecurity* caused by financial speculation, contrary to the claims of modern finance theory. The conceptual interweaving implicit here is held to be explicitly captured by the security *dispositif* developed by Foucault in the Collège de France lectures of the late 1970s, and as such has informed the bulk of the critical finance–security literature (see Amicelle, 2011; Amoore, 2011; Boy et al., 2011b; Dillon, 2008; Langley, 2013, 2015; Lobo-Guerrero, 2011, 2012). Foucault defined the goal of the security *dispositif* that developed from the mid-18th century as that of ‘making possible, guaranteeing, and ensuring circulations’ (Foucault, 2007: 29) and the liberal security problematic as one of ‘sifting the good from the bad, ensuring that things are always in movement ... but in such a way that the inherent dangers of circulation are cancelled out’ (Foucault, 2007: 65). A critical technology for securing circulation has been identified in the ‘probabilistic comprehension, calculation and colonization of uncertain futures’ (De Goede, 2010: 106); and, since the 1990s in particular, the pricing and distribution of risks has been named as the driving factor of global financial circulation (Langley, 2013).

There is little doubt that the risk calculus and its development in financial models have played a pivotal role in both enabling and ‘securing’ the circulation of financial instruments. Yet this article argues, first, that *sovereign safety* constitutes an important overlooked factor in securing circulation: both as the most common form of collateral for financial transactions and as the epistemic variable that fundamentally underwrites the edifice of modern finance theory. Second, the article explores whether this analysis of the safe asset can be seen as complementary to the *dispositif*, or whether there is a certain dissonance given that the successful accreditation of the state may in fact be said to represent the very object of Foucaultian critique.

Before turning to a comprehensive outline of sovereign safety in its various facets, I will give a brief conceptual history of the notion of financial security and its two senses of *means to secure a value/contract* and the *value/contract itself*, both of which remain central to the operation of financial markets today. Sovereign safety, which constitutes a curious overlap of these two senses of financial security, is then described in four different manifestations: the historical term of *public credit*, the *liquid government bond*, the *risk-free asset* of financial textbooks and the *safe haven* role under market stress. The following two sections discuss the relation to the Foucaultian *dispositif* of securing circulation in more depth and propose an alternative analytic of power as translation from debt into credit. The last section draws some general conclusions for the relation between financial and political security.

## Financial security: Means to secure and security itself

‘Security’, in the legal sense of collateral or pledge, or ‘securities’, as the common term for stocks and bonds in financial discourse, seem to bear no or only distant reference to political understandings of security as protection or freedom from danger. Conceptual histories of security barely mention the financial-legal sense of ‘security’, if at all (see Conze, 1984; Rothschild, 1995; Wæver, 1997, 2004).<sup>1</sup> Early contributions to critical security studies that do so refer to the

financial sense of security in an admittedly ‘descriptive’ manner, mainly to illustrate different intelligibilities of security. The main impetus here has been to undermine the ‘onto-theology’ of international relations’ axiomatic understanding of state security, not to enquire much further into the relevance of financial security for security studies (see Der Derian, 1995: 27–28).<sup>2</sup> While there exists a sizable body of legal literature on pledge, and collateral flows have been receiving increasing attention from political economy scholars, economists and anthropologists (see Gabor and Ban, 2015; Singh and Stella, 2012; Riles, 2011), these have not primarily considered collateral in terms of ‘security’.

The connotation of ‘security’ as pledge or collateral dates back to antiquity: in his *Histories*, Herodotus remarks that Egyptian creditors ‘required as a condition of loan that the debtor pledge the mummy of his father to secure the loan’, a pledge deemed of such ‘intense religious concern’ as to satisfy the debt (Squillante, 1982: 618). In archaic Greek law, the sense of ‘pledge’ or ‘pawn’ corresponds with the term *symbolon*: at the time of barter, the consent of two contractors was not sufficient to establish a contract of exchange, which required a *symbolon* to serve as witness to the transaction (Shell, 1978: 34). A ‘symbolon’ (from Greek *symbállein* – to put together) was a token of recognition in the form of an object – such as a bone or picture – that was ‘divided specifically for the purpose of later comparison’ (Shell, 1978: 33). Alternatively, the parties exchanged small items such as rings or half coins as security for the agreement. Importantly, these did not function as money, but merely as ‘a necessary symbol of credit or trust’ for the actual transaction (Shell, 1978: 33). Similarly, for oral agreements in 13th-century England, ‘a penny, or a larger amount, called a handsel, would be paid “in hand” or “in earnest”, to set a seal to a transaction’ (Muldrew, 1998: 106). Security as the means of securing an obligation was also signified by the Roman *cautio* and the Old French word *mortgage*. Curiously, all three terms – pledge, *cautio* and mortgage – carry an ambivalence of referring to the means of securing an obligation and to the obligation itself, or signifying ‘both the instrument and object which it was the purpose of the instrument to secure’ (Long, [1875] 2006: 259–260). With the rise of monetary transactions and written contracts – ‘neither of which’, as Shell (1978: 33) points out, ‘require witnesses’ – all *symbola* became down payments or deposits specified in monetary terms and as such ‘invisible’. Yet, even when expressed in the same medium as the transaction, and despite the ambivalent usage, the pledge retained its legal difference and conceptual autonomy.

A pledge or collateral initially derived its value – and hence its capacity to secure – from the quality of being manifest as opposed to mobile (see P. M. Schuhl, cited in Shell, 1978: 32), a common example being fixed property such as land. Even if ‘chattel’ explicitly referred to movable collateral other than real estate, it was at first exchanged for safekeeping and entailed a personal, and not alienable, relationship.<sup>3</sup> A first mobilization of collateral occurred with London goldsmith banking in the mid-17th century, where receipts issued by goldsmiths for gold deposited with them began to be traded on the credit of individual goldsmith bankers. According to Powell’s (1916) *The Evolution of the Money Market (1385–1915)*, this precursor both to the banknote and to the government bond required a critical change of the legal relationship between goldsmith and customer: the goldsmith turned from ‘bailee [and trustee], precluded from using the bailed chattel for his own personal advantage, without the consent of the bailor, express or implied, (unless such use be needful for its preservation (as in the giving of exercise to a bailed horse)’ (Powell, 1916: 63–64) to ‘debtor’, able to *use* the money lent to him. Today, the high mobility of collateral is complicated by its *reuse*: As Riles (2011: 43) notes,

if, as is permitted under the law of some countries, the pledgee (the party that receives collateral) ‘repledges’ the collateral to yet another party to satisfy its own obligations, which then repledges it again, then lawyers

are left to make sense of a constant global movement of collateral in and out of accounts in many jurisdictions in terms of legal rules created to address a far more stationary and localized conception of property and contract rights.

Even if mobile, however, collateral remains conceptually different from the promise to pay as a ‘separate’ and ‘additional’ obligation (William Colebrooke, cited in Riles, 2011: 2), or of accessory and auxiliary nature (Slovenko, 1958: 63). In medical discourse, ‘collateral circulation’ refers to ‘circulation carried on through lateral or secondary channels after stoppage or obstruction in the main vessels’,<sup>4</sup> and thus stands for latent, but potent, counterfactual circulation. Analogously, the value of collateral consists in its unactualized, yet guaranteed, capacity to secure either contractual performance or the solvency of the issuer in the case of non-performance.<sup>5</sup>

From the end of the 17th century, the English term ‘security’ itself has evolved from the sense of pledge to also denoting the obligation itself: both ‘a document held by a creditor as guarantee of his right to payment’ and a common term for bonds and shares (‘securities’).<sup>6</sup> Whether or not ‘securities’ should refer to equity has been an issue of content, since ‘equity’ implies a contingent return. The 1970 *Penguin Dictionary of Commerce* thus condemns the indiscriminate ‘misuse’ of the term for shares and, apart from a ‘safeguard for a loan’, reserves it for negotiable instruments and certificates of liability whose repayment is *guaranteed*.<sup>7</sup> However, shares played a crucial part in rendering sovereign bonds liquid, as will be elaborated in the following text, and ‘security’ acquiring the meaning of financial commodity in the 17th century is closely bound up with the securitization – that is, the institutionalization and accreditation – of sovereign debt.

## Public credit

The development described amounts to the gradual establishment of sovereign creditworthiness: the shift from sovereign debt being charged a far higher interest rate than commercial loans in the Middle Ages to its circulating ‘unsecured’ – that is, no longer requiring additional security in the form of either collateral or a high interest rate, but trading merely on ‘full faith and credit’.<sup>8</sup> ‘Public credit’ is the historical term under which a permanent institutionalized government debt was debated in Britain, and other Anglophone countries, from the end of the 17th century until the early 20th century.<sup>9</sup> Bonds, long-term debt and secondary markets in government debt were already used by the Italian city-states to fund wars, and thus some date the invention of public debt back to the late Middle Ages (see Ferguson, 2009). Because of the *coercive* nature of these loans and the uncertain return of principal and interest, others, however, argue that public credit as a primary and voluntary market in government bonds only developed in post-revolutionary Britain with the ‘credible commitment’ of the sovereign (North and Weingast, 1989: 824). The constitutional amendments that instituted Parliament as guarantor turned the royal debt into a national debt and sparked a new model of sovereign credit for (certain) states that, as the *New York Times* noted in 1865, marked a decisive break from the ‘financial and commercial distractions which prevailed when States openly violated their solemn contracts, laughed at their obligations, and appeared insensible of the disgrace of disregarding their plighted honour’.

Rather than a sudden discovery of virtue, the ‘mastery of Lady Credit’ was the result of manifold factors: from the contested ‘invention of financial man’ through the disciplining techniques of double-entry bookkeeping (De Goede, 2005) and the consolidating political competition between the emerging parties of Whigs and Tories (Carruthers, 1996) to the moral validation of the insurance trade (Lobo-Guerrero, 2012).<sup>10</sup> It was also fostered by the reform of tax collection and

administration (Brewer, 1990), the pre-existence of a stable monetary space in Britain (Ingham, 2004) and the dramatic increase of the credibility of the contract during the 18th century (Muldrew, 1998). Notably, during the 17th and 18th centuries, public credit was coterminous with the emerging financial market itself and implied the 'publick Faith' in *all* the new virtual monetary instruments of the 'financial revolution' (Dickson, 1967).

Although the 'security' of public securities was initially highly contested – with critics ranging from the Augustan satirists to Romantic poets and pamphleteers such as Blake, Shelley and Cobbett – a remarkable shift occurred from the mid-19th century onwards. Critical counter-discourses began to portray the destructive effects of finance in terms of the insolvency of private individuals and country banks, while the national debt strangely eluded this criticism (Brantlinger, 1996). Later modern and postmodern criticism similarly did not target public credit, but rather the commodity fetishism and consumer society associated with the Second Industrial Revolution.<sup>11</sup> The national debt of the so-called advanced economies came to be considered as inherently legitimate and safe; and if debt remained a sign of moral weakness and inertia among less developed countries, it became 'a credential of adroit risk management among the financially mature.... The ability to sustain debt, and the willingness to continue lending, were portrayed as signs of strength' (Martin, 2007: 28).

This perception of sovereign safety was not harmed by the variety of default experiences of nearly all 'advanced economies' in the 20th century (Reinhart and Rogoff, 2014). It informed, until recently at least, an understanding of creditworthiness that was paradoxically only enhanced by the size and liquidity of the bond market, that is, the amount of outstanding debt. It is thus that the investment company Blackrock (2011), in a recent reassessment of sovereign bonds, has been able to identify four 'traditional' attributes of sovereign debt: (1) an apparently riskless rate of return upon which all other assets trade at a risk premium; (2) a very high degree of liquidity, whereby government debt assumed high-powered money characteristics; (3) its function as a reference point for the valuation of virtually all other asset categories; and (4) its role as a safe haven asset during times of market stress. The next sections will consider the different aspects of *liquidity*, *risk-free asset* and *safe haven status* of sovereign debt in more detail.

## Liquid government bond

The term 'liquidity' has only been in use as a metaphor for the condition of financial markets since the end of the 19th century,<sup>12</sup> but the association of monetary circulation with fluid dates back to the Hobbesian imagination of circulating money as the blood of the body politic (De Goede, 2005: 23). Liquidity can be seen as a direct expression of the credit commanded by a financial instrument, marked by a similar price for buying and selling. As Carruthers and Stinchcombe (1999) elaborate, British government debt was 'liquidified' through indirect capitalization via the three main joint-stock companies of the Bank of England, the South Sea Company and the East India Company. These companies issued shares on the stock market and loaned funds to the government, so that buying a share represented an indirect investment into the national debt (Carruthers and Stinchcombe, 1999: 373). Of the three, two were explicitly created to fund the public debt – the Bank of England in 1694 and the South Sea Company in 1711 – while the East India Company, incorporated in 1600, started to loan funds to the government in 1709. The London stock market had been highly 'illiquid' during the 17th century due to high transaction costs and the cumbersome procedures for transfer of title. By 1710, however, it had turned 'very active, highly centralised, and extremely liquid', while direct forms of government lending, such as annuities and lotteries, remained illiquid (Carruthers and Stinchcombe, 1999: 370, 373).<sup>13</sup> Regardless of the huge losses of the South Sea Bubble in 1720, the number of national creditors continued to rise, and

despite his general condemnation of the public debt, David Hume acknowledged in 1752 that ‘public securities are with us become a kind of money, and pass as readily at the current price as gold or silver – no merchant now thinks it necessary to keep by him any considerable cash’ (cited in Brantlinger, 1996: 92).<sup>14</sup>

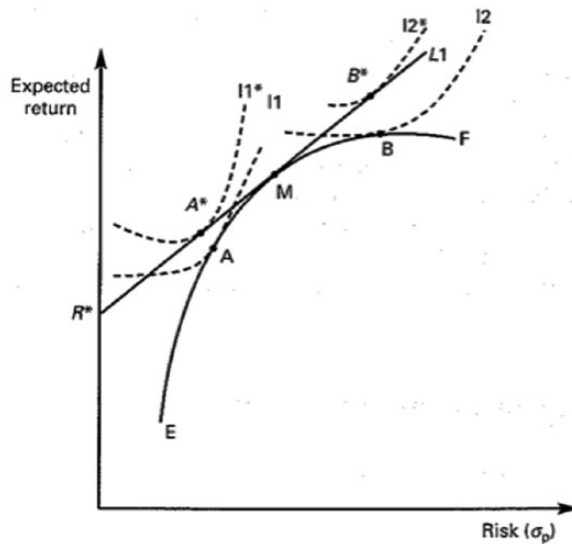
A critical element in the liquidification of the London stock market and the consequent consolidation of the national debt were legal changes: the Promissory Notes Act of 1704 and the absorption of the law merchant into common law transformed financial claims into standardized, alienable and negotiable commodities – that is, able to be transferred to new ownership. The intermediary of the joint-stock company also worked to turn illiquid government debt into homogenous shares by reconciling different maturity periods of loans (Carruthers and Stinchcombe, 1999: 374). The alienability of shares and bonds reflects the transition of banknotes from a ‘deictic promise with its embodiment in dates, individual names, and apparatus of witness’ to a de-deictified, depersonalized and anonymous claim ‘payable to the bearer’, substituting a variable ‘meta-subject’ for the personal relationship (Rotman, 1987: 48).

The phenomenon of *liquid debt* consists in a peculiar merging of the present and the future: it both expresses actual circulation and reflects the perceived *potential* to circulate. If debt as a ‘conditionality spanning the future’ (Lepinay, 2007: 95) entails uncertainty, the price of which is paid in the form of interest, liquid debt has come to be imbued with the certainty (and unprofitability) of the present. As Keynes ([1936] 2008: 108) held, interest is not a reward for saving but for parting with liquidity. It is illuminating to contrast the phenomenon of a liquid bond with Bauman’s (2000, 2002) conception of liquidity. For Bauman, the predictability of the fixed institutions of classic modernity has been superseded by the uncertainty of ‘liquid modernity’. In the ‘fluid world of globalisation, deregulation and individualisation’ (Bauman, 2002: 19), primarily driven by unbridled financial markets, nothing keeps its shape and social relations undergo constant change. In this state, ‘bonds’ as constraining and uniting forces of mutuality secured by the law and ‘bonding’ as ‘a term that signifies the stability of solids’ (Bauman, 2000: 2) have become cumbersome, ineffective and possibly ‘harmful’ arrangements. Their costly maintenance is eschewed in favour of novel ‘liquid’ techniques of power that neither ‘fix space nor bind time’ (Bauman, 2000: 2).

Bauman’s conception almost stands in direct opposition to the financial meaning of liquidity, which ‘dries up’ when confronted with irredeemable uncertainty and the flows of which depend on plausible narratives and trust. As Lepinay (2007: 99) notes, liquidity is ‘an index of a common world’, while periods of high volatility are described as ‘moments of high uncertainty about the definition of individuals and goods, moments in which stable ontologies crumble’. It is not the (im)materiality of a product but the uncertainty of its definition that has adverse effects on liquidity. Rather than the ‘paramount source of uncertainty’ (Bauman, 2000: 121), liquidity follows from the accommodation of contingency into calculable risk: the successive innovations of modern finance theory to price financial instruments as well as credit ratings and structured finance decisively contributed to an era of ‘liquid finance’. Yet what distinguishes the liquid government security from other ‘bull markets’ is that it remains liquid, and even thrives, when all else fails, as I will discuss further in the section on the safe haven status later. Simply equating liquidity with capital mobility therefore overlooks a paramount difference between markets and between different market attitudes towards the future.

## Risk-free asset

As De Goede (2005) has shown, early debates on public credit formed a critical first moment in the rationalization of finance and economics as scientific truth-telling domains. In the 20th century, sovereign creditworthiness assumed an explicit function *within* modern finance theory with Tobin’s



**Figure 1.** The capital market line and the market portfolio (Pilbeam, [1998] 2005: 194).

introduction in 1958 of the notion of the ‘risk-free asset’ to modern portfolio theory. Markowitz had laid down the foundations of modern portfolio theory in 1952 by developing a systematic approach to investment that distinguished between the riskiness of an individual security and the riskiness of a portfolio. An efficient portfolio – that is, one that offered the highest return for any given level of risk or the lowest risk for any given level of return – was achieved by the optimal *correlation* between different assets. Markowitz had mapped out the optimal combination of two risky assets as the ‘efficiency frontier’. Tobin extended Markowitz’s analysis by introducing a riskless asset, based on the assumption of a certain return of a government bond, at which investors could either borrow or lend. The effect of including the riskless asset produced the ‘striking result that the efficient set become[s] a linear line known as the capital market line’ (Pilbeam, [1998] 2005: 178). The capital market line (line  $R^*L1$  in Figure 1) dominated positions on the efficiency frontier and optimized the risk: return ratio for both risk-averse and risk-embracing investors—people investing a share of their portfolio in bonds (lending to the government) could hereby lower their overall portfolio risk, while investors borrowing at the risk-free rate could achieve an excess market return according to the model (see Figure 1: both the risk-averse investor A and the risk-embracing investor B achieve a better risk–return trade-off when lending/borrowing at the risk-free rate, corresponding to the points  $A^*$  and  $B^*$  on the capital market line). The introduction of a risk-free asset had significant consequences for the long-contested practice of speculation: where speculation had during the 19th century been rationalized as professional risk-bearing, offsetting the majority of hedgers, the risk-free asset provided a rationale for *leveraged* speculation, that is, increasing speculative capital through taking on debt.

Tobin was awarded the Nobel Prize in economics in 1981 ‘for his analysis of financial markets and their relations to expenditure decisions, employment, production and prices’,<sup>15</sup> partly on the basis of his seminal 1958 paper. Yet the concept of the risk-free asset by no means constitutes the central focus or innovation, but rather takes the place of a helpful instrumentalization and ‘given’

means to improve the risk–return efficiency of portfolio investment. The risk-free rate continues its elemental but ‘backstage’ function in the 1973 Black–Scholes option pricing formula: a ‘seismic event in financial economics’ (Taylor, 2004: 250) that set off the tremendous post-Bretton Woods growth in derivatives trading.<sup>16</sup> The impact of the formula consisted in a novel methodology that, in order to value a derivative, identified a ‘replicating portfolio’ or perfect hedge and then ‘invoke[d] the fact that a position that consists of a perfectly hedged derivative is riskless and thus can earn only the riskless rate of interest’ (MacKenzie, 2007: 59). This equation of positions was possible owing to the ‘no arbitrage’ stipulation of the efficient-market hypothesis where any price difference would be eliminated by market participants. The riskless position of the hedge – achieved by neutralizing a ‘long position’ in the underlying asset with a ‘short position’ in options – differs from the risk-free rate because it is based on the negative correlation of market risk, while the risk-free asset is by definition uncorrelated with any other asset. That is, the entire edifice of option theory hinges on the equivalence of two fundamentally different derivations of safety: the offsetting of a potential negative market movement with the opposite position – the perfect hedge – and the assumption of the safe asset based on public credit.

Modern finance theory and its remarkable practical influence thus rest as much on the probabilistic quantification of uncertainty as on the stipulation of a risk-free asset, and the latter is not only a critical element in the pricing of stocks and derivatives, but serves as a benchmark for valuing *any* financial asset: its inconspicuous existence, subsumed by the general focus of modern finance theory on asset pricing and the calculability of the future, has only begun to attract attention through the sovereign debt crisis in the wake of the global financial crisis. In what might be called the first systemic debt crisis of ‘advanced economies’, the riskless asset has been discovered as the ‘bed-rock of finance and investment theory’ (Peebles, 2012), one of the ‘cornerstones of the global financial system’ (Viñals, 2011) and, historically, the ‘rock around which a financial system is built’ (*Economist*, 2012a).

## Safe haven

Under conditions of ‘market stress’ and uncertainty, investors leave risky assets in a ‘flight to safety’ to the bond market. This condition can be read from the inverse bond price–yield relationship: increased demand for bonds raises the price and thus lowers the yield, and vice versa. ‘Classic’ safe havens are the euro in Germany and the Swiss franc, but the US treasury market constitutes the largest and most liquid bond market globally. This is due to the dollar’s role as reserve currency, which obliges the USA to issue debt securities in which foreigners can invest those dollars (*Economist*, 2012b). Safe-haven yields below 3% (on a ten-year bond) are considered a sign of general market fear and doubt. However, the more confidently investors assess future prospects, the more the demand for government bonds will fall, lowering the price and raising the yield. Yet raised bond yields of safe havens can be claimed to signify two opposite conditions: either the imposition of a risk premium due to an increase in the perception of sovereign risk, or prospects of economic growth and an ‘ebbing of the panic’ that motivates investors to leave unprofitable safety. Borrowing costs for the government may therefore rise owing to a better outlook for the economy, while the greater a crisis, the cheaper it is for safe haven countries to borrow. At the same time, the fates of the ‘state’ and the ‘economy’ remain intertwined: the more bonds a government sells, the more their value increases, hurting the competitiveness of its exports.

The perception of sovereign safety indicated by such metaphors as ‘flight to safety’ and ‘bond shelter’ (*Economist*, 2012b) plays a *systemic role of securing value* that is somewhat different from the regulatory acts of securing financial stability via the stipulation of adequate reserves and collateral at financial institutions.<sup>17</sup> If these regulations have often been circumvented by financial



innovation – the credit default swap, for example, was motivated by the outsourcing of credit risk in order to reduce the amount of capital reserves that were required – safe havens offer a more voluntary and unregulated refuge for capital. Yet the regulatory requirement of sovereign debt as collateral also leads to the phenomenon of ‘captive buyers’ at the same time as the perception of safety has become scarce. In the aftermath of the sovereign debt crisis, there are ‘fewer havens to choose from’ (*Economist*, 2012b),<sup>18</sup> leading to such paradoxical effects as the yields of bonds issued by the USA, Germany and other states going repeatedly negative in 2012 and 2013. This phenomenon reverses the logic of debt into its antithesis, where creditors pay debtors in order to lend to them. The partly orchestrated demand for safe-haven bonds through ‘captive buyers’ as well as central bank policies of quantitative easing (purchasing bonds to lower interest rates and promote lending) have led to fears of a ‘bond bubble’, implying that rates are ‘artificially’ or ‘inappropriately’ low. Bond markets – traditionally ‘boring’ – are now said to constitute a major risk to financial stability in themselves.<sup>19</sup> The bond market does not clearly fit the definition of a ‘bubble’ – as Shiller noted, ‘it doesn’t seem to be enthusiastic. It doesn’t seem to be built on expectations of rapid increases in bond prices.’<sup>20</sup> Yet the worry is that ‘there is nowhere left for this bubble to go, given that it is now in the hands of the lenders of last resort’ (Deutsche Bank, 2014: 6).

### ***Dispositif* and the power of sovereign safety**

Now that the contours of the different facets of sovereign safety have been outlined as public credit, the liquid bond, the risk-free asset and the safe haven, as what kind of power should this configuration be understood? Can sovereign safety as collateral and epistemic variable be neatly added to a Foucauldian liberal *dispositif* of securing uncertain circulation? What kind of state does it return to security studies?

Foucault’s lectures were held at a time when ‘financialization [was] just beginning to generate the primacy of circulating flows and dispersed, deindividuated, nonsovereign forms of commodity exchange associated with the rise of derivatives’ (Martin, 2007: 135). Nonetheless, his analytics of power has been regarded as a prescient grasp of the significance of preponderant finance. Although recent analyses (see Martin, 2007; Langley, 2015; Konings, 2014) deliver the lacking financial and monetary dimension of the security *dispositif* in a potent and illuminating manner, the present article nonetheless explores a potential discrepancy between sovereign safety and the analytics of power of the *dispositif*. This discrepancy is rooted in the opposite orientations of what might be called the Foucauldian *divesture* of the centralized power of the state and the arguably very successful *investiture* that sovereign credit represents. To fully develop this argument will be beyond the limited space available here, but the following reflections will do so in exploratory form.

Foucault (2004: 45) defines his project as a challenge to the three assumptions of sovereignty: subject, unity and law. Power is to be studied ‘outside the model of the Leviathan, outside the field delineated by juridical sovereignty and the institution of the State’ (Foucault, 2004: 34), and the focus on the material processes of subjugation in their most regional forms and institutions in which power is ‘actually exercised’ (Foucault, 2004: 37). The historical survey and analytical decomposition of power mechanisms are intended to perform a *divesture* of the state: to undermine our ‘attachment to the birth of the state, its history, advance, power and abuses’, to attest to the ‘absence of a power centre’, and to ‘attack the strong and the dense with the feeble, diffuse and lacunary’ (Foucault, 2007: 116).

This ‘anti-leviathan’ orientation has been said to represent a more polemic feature of Foucault’s earlier work (Dean, 1994: 157), and the Collège de France lectures in particular have been argued to constitute a ‘scaling up’ of micro-processes (Jessop, 2011: 60). Foucault’s interest here is how the shift from classical liberalism to neoliberalism involves ‘a state under the supervision of the market rather than a market supervised by the state’ (Foucault, 2008: 115). Contrary to neoliberal

state phobia, an ‘effective reduction of the state has been underway in the 2nd half of the 20th century, a reduction of both the growth of state control and of a “stratifying” and “stratified” governmentality’ (Foucault, 2008: 191–192). Yet, although Foucault refrains from a value judgement, his analysis has been argued to remain within the boundaries of liberal economic discourse without rendering them visible. In his preoccupation with divesting the centralized power of the state, he performs an ‘unwitting reiteration of the liberal imaginary of economy’ that fails to account for the ‘economic and monetary order of things’ (Tellmann, 2011: 286).

This may partly be explained by the fact that public credit not only ‘disappeared’ from the focus of cultural critical discourses, as alluded to earlier, but also did not feature prominently – or problematically – in modern economic theory. Conventional Keynesian, monetarist and classical theory modelled the main interaction between finance and the real economy as resulting from changes in the money supply, and not from the performance of markets for borrowing and lending (Gertler, 1988: 559). Money, not credit, was the central financial aggregate in both Keynesian liquidity preference and Friedman’s quantity theory (Gertler, 1988: 563). If modern finance theory as such had difficulty becoming accepted as ‘economic’ (Bernstein, 1996), the adoption of the risk-free asset was never controversial.

Even if less so in Foucault’s account, fiscal policy and the public debt did play a role in the earlier ordoliberal–Keynesian debate, centring on the utility of government deficit spending versus austerity. Yet, although the austerity discourse following the 2010 sovereign debt crisis draws – somewhat ‘intuitively’ – on a liberal discourse of fiscal rectitude going back to David Hume and Adam Smith (see Langley, 2015: 154; Blyth, 2013), the perception of sovereign safety is not necessarily linked to austere fiscal policy. The great size of the US treasury market (i.e. the amount of outstanding debt), for example, also implies a high degree of liquidity. The vast increase in borrowing by ‘advanced economies’ since the 2000s did not affect their sovereign credit rating until the global financial crisis. The tradeable indices developing with this increase that tracked the sovereign debt of comparable entities (such as the iTraxx SovX Western Europe) also weighted the share of debt by ‘issuance’ or ‘market capitalization’, meaning that the more debt a country had issued, the higher its representation in the index.<sup>21</sup>

Arguably, Foucault’s emphasis on *divesture* and *discredit* of the centralized power of the state runs somewhat counter to the very successful *investiture* and *accreditation* that sovereign credit implies. Akin to the tale of the emperor’s new clothes, this investiture hinges on the collective acceptance expressed in the voluntary purchase of government bonds. ‘Security is an investment’, Martin (2007: 17) has noted – a term that initially referred to the putting on of robes to assume spiritual powers. To be fair, sovereign credit is not precisely the Leviathan that Foucault rejects: its near-oxymoronic character is captured in the peculiar legal definition of sovereign creditworthiness as ‘ability and willingness to pay’.<sup>22</sup> It falls between the state and the market, or, perhaps, may be seen to be given to the state *via* the market. The ‘voluntary’ investment in and repayment of bonds is certainly also marked by *dispositifs* of credit and debt affecting the subject (see De Goede, 2005; Jones, 2014). Sovereign safety is in important respects relational, defined between the ‘free’ flows of investors and captive demand for safety. Yet, although part of a complex relational apparatus of power where sovereignty itself is reconfigured (see Langley, 2015), it also refers to a centralized form of state power that is indeed ‘held’, ‘unified’ and ‘given’, and whose ‘mythicized abstraction’ (see Foucault, 2007: 109) is of great significance.

## Translations of a tautology

If the *dispositif* fails to articulate this centralized aspect of sovereign safety and what might be termed the heterogeneous *equivalence* between public credit, the liquid bond, the risk-free asset

and the safe haven, this relation of power may more concisely be captured as a twofold translation: (1) a translation between the different individual terms that (2) itself rests on and reproduces a prior translation from public debt into public credit.

The concept of translation involves the conundrum that the 'equivalence', 'adequacy' or 'fidelity' of a translation can never be vouched for, while the theoretical aspiration of equivalence can never be discarded (Langenohl, 2014: 94). In other words, translation fails perfect equivalence and yet creates equivalence by definition.<sup>23</sup> The translation between the different registers of public credit, financial instrument and epistemic variable is shaped by both origin and context and 'reveals new properties of the idea, object or action and discards others' (Freeman, 2009: 432). It is here reminiscent of Stritzel's (2011) analysis of political securitization as translation: that is, as a 'bounded' or 'constrained' innovation, in which the idea, in Bakhtin's words, does not 'forget its own path and cannot completely free itself from the power of those concrete contexts into which it has entered' (cited in Stritzel, 2011: 345). The framings in terms of bond-market dynamics or in terms of the financial model both maintain a certain continuity and are subject to certain conditions: for example, in the translation of liquid government debt to the parameter of the risk-free asset, sovereign creditworthiness is conceived in relation to and in terms of the earlier model of the efficiency frontier of risky assets, deriving a new function in optimizing both the safety and the efficiency of portfolios while discarding the risk of inflation. Translation captures the heterogeneous equivalence between the different elements of sovereign safety because it not only lacks the principal aversion of the *dispositif* towards 'unities', but constitutes an act of unifying in itself (see Sakai, 2010).

A second translation present in all terms rests on a securitization in the financial sense – that is, a translation from debt into credit. This securitization critically hinges on how the translation from the 'reality' of debt into the 'fiction' of credit is itself secured. Historically, answers to this question have grounded public credit in a reference to 'real' value: although no longer requiring security from collateral or a high interest rate to offset the risk, the 'discursive currency' of reference was claimed to be guaranteed by both the gold standard and gold reserves (Goux, 1990: 103). The former was replaced first by the fixed exchange rate regime of Bretton Woods and later by the monetarist maxim of central bank independence (Hall, 2008). Yet the claim to referentiality has equally been held to be illusory. As Marx ([1894] 1971: 466) notes in the third part of *Capital*, both shares and national bonds constitute a fictitious doubling of value: 'A share of stock is merely a title of ownership to a corresponding portion of the surplus, that is a value to be realised by it', and capital cannot exist twice, as both title/claim and actual capital invested. The same applies to national currency: 'Just as everything in this credit system is doubled and trebled and transformed into a mere phantom of the imagination, so it is with the "reserve fund" where one would at least hope to grasp on something solid' (Marx, [1894] 1971: 472).

With the illusory guarantee of the convertibility of circulating notes, public credit succumbs to either the magic or the scandal of 'self-creation' and is characterized by a certain circularity (Rotman, 1987: 49). As Brantlinger (1996: 48) puts it, 'the modern nation-state may be the ultimate "guarantor of value," but ... [w]hat props it up – keeps it in power or, so to speak, in currency and circulation – is not gold and silver bullion locked up in its treasury vaults but merely public credit'. In the final analysis, public credit reveals itself as self-referential and tautological: just as the tautology suggests difference through syntax that is semantically revealed as sameness, public credit is ultimately grounded in nothing but the appearance of referentiality. Even if not exactly the state that Foucault rejects, public credit is here reminiscent of the aporia of foundation that defines political authority: the 'great tautology' of the social contract theories constituting both mother and daughter of the nation, where the legitimating authority is symbolically externalized, concealing the self-authorizing character of the social contract (see Koschorke et al., 2007: 248; Derrida,

1994). Drawing on Hobbes's analogy of authorship and authority, Vogl has similarly described the body politic as the 'production [*Inszenierung*] of a Person that has subsequently always already been there' and as the 'institution of a reference that performs that which it signifies ("personality" out of the multitude)'. At the beginning of the Hobbesian primal scene stands a self-representing and self-withdrawing authorship that culminates in 'the authorization of a fiction, that is, to be treated *as if* one had acted' (Vogl, [2002] 2008: 24). Both public credit and political authority thus converge as effective fictions and as such are not purely reductive to the historical register, even if the means of securing the translation are. Once established, the legal ground of state theatre and the credit of sovereign safety precede the empirical world in elusive anteriority.

## Conclusion: Financial and political security

Rather than returning the state as explanatory unit and axiom of international relations, this article has traced the contours and translations of an inconspicuous form of state power as public credit. As *liquid bond*, it is the most important form of collateral securing financial transactions. As the *risk-free asset*, sovereign safety occupies a central place in the derivation of the risk calculus underlying financial circulation. As *safe haven*, it constitutes a crucial factor for the oscillation of financial flows in and out of 'safety'. The Foucault-inspired finance–security literature has so far discerned mechanisms of securing circulation too exclusively in technologies of risk, without realizing that the financial risk calculus carries at its heart that which, to some extent, may be seen as the very object of the Foucaultian *divesture*.<sup>24</sup>

Both as collateral and in the form of 'sovereign risk', sovereign credit is subject to probabilistic assessment and in that sense may be considered a 'governmentalization of the state'. Yet governmentality eludes an element of accreditation in which sovereign safety becomes 'the "cement" that binds together all the members of the body politic' (Coleridge) and the 'soul of the state' (Dickens) (cited in Brantlinger, 1996: 132). Although the safety of sovereign credit is relative, contingent and relational, the power of credit unifies an effective fiction that is not purely sustained by and reducible to the specificities and multiplicities that Foucault (2004: 46) regards as the 'real fabric of both power relations and the great apparatuses of power'. If, as Martin (2007: 19) notes, 'securitisation assembles credit, derivatives disperse risk', sovereign safety makes the latter possible through the former. And while sovereign safety is no longer referred to as 'public credit', its accreditation is present in the 'boring' nature of fixed debt that bonds until recently displayed.

I will conclude by pointing to three resonances of political and financial security that this analysis has made it possible to discern. First, the original financial meaning of securitization as the *becoming liquid, becoming plausible, becoming credible* of securities may have more in common with the Copenhagen School's definition of securitization as speech act (Wæver, 1995) or translation (Stritzel, 2011) than has so far been noticed. Second, political and financial security share an ambivalence of meaning as *means to secure a value* and as *norm/value itself*: just as all early formulations of financial security vary between signifying the means to secure a contract and the contract itself, security in a political sense has alternatively referred to the means of securing a particular value (such as safe passage, the state, society, the human, population, life) and a condition or value of being secure. This normative understanding of security as a positive and desirable condition in itself in fact only emerged in the 20th century in the course of the interwar retrospective valuation of a 'lost' security (Kaufmann, 2003). As such, it sparked the paradigm of national security of the emerging discipline of international relations (Wæver, 1997). These transitive and intransitive meanings<sup>25</sup> of security also overlap, for example in the protection of credit: the daily calculation of LIBOR, the rate at which banks would lend to each other, is secured by back-up offices that ensure its operation in the case of terrorist attacks and other incidents (MacKenzie,

2008: 237). Similarly, Dodd describes digital gold currency as hybrid: 'Though it *represents* gold, its security is *protected* by code, i.e., digital cryptography' (Dodd, 2014: 42, emphasis in original). Finally, despite an apparent contrast in political and financial settings, the *value* of security in liberal governance is interdependent with risk. At first glance, security appears to be valued differently in these two contexts. While protection from danger has a strongly positive connotation, security in finance shares this sense only in 'bad' times. In 'good' times, security is associated with low yields and the cost of a counterfactual 'safety premium' paid in the form of foregone interest that could have been earned by investing in a more profitable and risky asset class. In this vein, Buzan's (1983) account of security in the context of the market had defined it in zero-sum relation to efficiency and freedom. Later critical analyses raised this 'sectoral' condition to the encompassing characteristic of liberal governance, founding the legitimacy of the state in the service of a higher order of economic insecurity (Cooper, 2004). The liberal security *dispositif* thus has been said to promote a circular logic of producing incessant insecurity against which to hedge (De Goede, 2010; Martin, 2007). The production and valuation of security here bear some resemblance to the emphasis of critical security studies on one same process of (*in*)*securitization* (see Dillon, 1996; Balzacq et al., 2010). In the liberal *dispositif* of securing circulation, financial and political security increasingly converge in a common framework of crisis governance, marked by both the financialization of security and the securitization of finance. And yet, security as credit is not to be revealed as delusion before a deeper truth of insecurity: securitization as accreditation may be fictitious, but it is not false.

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### Notes

1. Conze (1984: 832) briefly alludes to the Roman 'civil law technical terminus' of *securitas* as a debt security similar to *cautio*, but although he notes that this sense is still alive he does not consider it relevant for the conceptual history of security.
2. Der Derian (1995: 28) refers to the sense of 'pledge, bond, surety, sought in the face of danger or debt' as mediating between two other historic meanings of security as 'condition of being protected, free from danger, safety' and 'false or misplaced confidence'.
3. The specific kind of security was specified as *fiducia*, *hypotheca* or *pignus*, implying different conditions for the transfer of security: '*Fiducia* indicated the transfer of ownership to the creditor, who generally but not always retained possession as well; *pignus* indicated the retention of ownership by the debtor, but the transfer of possession to the creditor; and *hypotheca* indicated the retention of both ownership and possession by the debtor but with the creation of a possessory interest in the creditor' (Goebel, 1961–62: 29). The notions of mortgage, chattel and pledge continue these different variations of security (see Slovenko, 1958).
4. See 'collateral' in the *Oxford English Dictionary*, 2nd edn (Oxford: Clarendon Press, 1989).
5. A different mechanism for securing the circulation of maritime trade emerged from the 13th century with the development of insurance fostered by the 'probabilistic revolution' (Lobo-Guerrero, 2011: 16).
6. See 'security' in the *Oxford English Dictionary*, 2nd edn (Oxford: Clarendon Press, 1989).
7. See 'securities' in the *Penguin Dictionary of Commerce* (Harmondsworth: Penguin, 1970).

8. In the 15th century, Italian banks charged Charles VIII of France an interest rate of 100% on war loans while charging Italian merchants 5–10%. The Bank of England's first loan to the British government carried an interest rate of 8% – double the rate at which it discounted trade bills. See Haldane (2009: 1).
9. Although the term today still occasionally appears in legal documents, it is rarely used in this sense and now generally refers to a different meaning, such as the system of public banks or the operation of 'services of general economic interest in the banking sector'. See European Commission (1997).
10. Maritime insurance both served as instrument in military strategy and fuelled the national debt as merchants and underwriters invested their profits in the 'funds' (Lobo-Guerrero, 2012: 23).
11. For a more detailed account, see Boy (2014). For an erudite account of the complex interrelation between public credit, economic theory and literature, see Brantlinger (1996).
12. See 'liquidity' in the *Oxford English Dictionary*, 2nd edn (Oxford: Clarendon Press, 1989).
13. The most active trader in Royal Africa Company stock (John Bull) traded 13 times from 1672 to 1679 (Carruthers and Stinchcombe, 1999: 370).
14. From 11,000 in 1709, the number of creditors rose to 25,000 in 1737 and 60,000 in 1756 (Muldrew, 1998: 116).
15. See [http://www.nobelprize.org/nobel\\_prizes/economic-sciences/laureates/1981/](http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1981/) (accessed 13 June 2013).
16. An option is a contract that gives the right, but not the obligation, to buy (or sell) a set quantity of assets at a set price in the future.
17. These requirements – along with the bail-out and stimulus programmes of the financial crisis – are partly responsible for the phenomenal increase of the global bond market in the new millennium, which tripled in size from \$11 trillion in 2001 to more than \$31 trillion in 2011 (*Economist*, 2012a).
18. This resonates to some degree with Bauman's (2000: 135–136) argument that 'safe ports for trust are few and far between, and most of the time trust floats unanchored vainly seeking storm-protected havens', yet his juxtaposition of the liquefying power of capital and trust remains problematic.
19. Andrew Haldane, then Director of Financial Stability of the Bank of England, giving testimony to the Treasury Select Committee on 2 June 2013.
20. Economist Robert Shiller in an interview with *Money* in December 2014. See Regnier (2015).
21. This logic derives from the capital asset pricing model, which suggests that the market portfolio – the capitalization-weighted portfolio of all assets – should have the highest return per unit of risk (Goldsticker and Lowell, 2012: 4).
22. As opposed to the definition of private creditworthiness as 'ability to pay'. The phenomenon of voluntary sovereign repayment has puzzled economic theory: Why would a sovereign debtor repay if he cannot be coerced to do so? See Kolb, 2011: 4.
23. As Sakai (2010) has pointed out, the historical practice of translation itself significantly contributed to the essentialization of different cultures and was pivotal in establishing nation-states as *different but equivalent* imaginary entities.
24. This applies to the major models of finance theory such as the capital asset pricing model and the Black–Scholes option theory, but not to value-at-risk.
25. I owe this terminology to Andreas Langenohl.

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